Economic Conditions
Governmental Finance
United States Securities

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End of the War.

WHEN this BULLETIN was issued one month ago the end of the war was foreshadowed, Bulgaria, Turkey and Austria-Hungary having asked for peace without other conditions than the terms of President Wilson's general declarations. Since then Germany has signed an armistice, the terms of which render it impossible for her to renew the conflict, trusting to a final settlement upon the basis of the same declarations. The victory for the Entente Allies and the United States is complete and decisive. The power of the Teutonic nations and their allies was utterly broken. The revelations that have come since the armistice was signed have shown that Germany did not yield merely because her allies failed her; her own strength was also exhausted. Prince Maximilian in a public statement has said that he would have held off for better terms had he not been advised by the army chiefs that the military situation was critical. The western front was breaking, and even if the collapse in the southeast had not come it would have been necessary for Germany to make peace to escape invasion. And not only were the armies broken, but her economic resources were much nearer exhaustion than her antagonists knew and the morale of her people was lower than reports upon the outside had indicated. Up to the last there were people supposed to be well informed upon Germany, who insisted that under no conditions would the German people turn upon their government, and that a defense could be maintained indefinitely. In the end the whole imperial fabric went down like a house of cards. The German people did to William II just what the French people did to Napoleon III, in similar circumstances. The kings and princes of Germany, the House of Hapsburg and the royal family of Bulgaria have gone the same way.

America's Participation.

Mingled with feelings of relief and joy that the bloodshed and wastes of war are at an end, are the feelings of gratification and pride over the manner in which the American troops have acquitted themselves. These youths from the farms, shops, offices, mines, railways and many of them from unfinished courses in the schools, with only a few months of training and with comparatively few experienced officers to lead them, went up fearlessly against the German military organization, and were victorious. They are representative of American citizenship and the qualities which they have displayed reflect lasting honor upon the American name. They have shown how quickly the civilian population of this country can be organized into an effective military force. And not only have they displayed the highest soldierly qualities in battle, but they have honored the country by their high standards of personal conduct, their kindliness toward the inhabitants of regions in which they served, their self-restraint, dignity and clean lives. They have nobly carried the part which their country has desired to play in this war. Gladly and proudly the country will welcome back those who return and tenderly, reverently, it will bring back the fallen to rest in their own soil.

Industrial Mobilization.

On the whole there is good reason for satisfaction over the achievements of the country in organizing and developing its war powers. Along with the rejoicing over peace there is some disappointment that a full showing of results from all the preparatory work and expenditures could not be made. The industrial organization was just getting into shape to show war production on a really great scale. There was inevitably a degree of confusion in the conversion and establishment of industries in haste, but the decisions of chief importance have been justified. The Liberty Motor, for a time the main subject of controversy has been abundantly vindicated, and the air craft program had reached a satisfactory stage of advancement. The ship-building program was delayed at its inception by dissensions, but it has made a good showing this year. Money has been spent with great freedom to hasten results, and in so far as results were actually expedited there is no reason to regret this policy. Instances of mismanagement and waste no doubt will be found, perhaps many of them, but it is a gratifying fact that thus far there are no authentic instances of malfeasance or betrayal of trust in the large undertakings. The cases named in

the air-craft investigation are technical in character and without proof of injury to the government's interests.

Situation in Europe.

Interest in the European situation centers for the moment upon the question whether or not there is to be a general overturning of the social order in Germany and Austria, with a consequent delay in reorganizing the industries of those countries effectively for production. The problem of settlement between the central powers and allies and the social future of the former countries are dependent upon the rehabilitation of the industrial organization. Great confusion exists and apparently the radical elements are in control at Berlin but meeting with strong opposition in other parts of Germany. In the regions which are to be included in the new nations, the people seem to be quietly preparing to set up representative institutions.

Germany is a highly developed industrial country but it is practically bare at this time of raw materials necessary to the resumption of production for the market; moreover the supply of food is scanty and the industries require much work upon them to put them in shape for peace-production. The country needs organization, leadership, credit abroad, and the services of its ablest men of affairs. A reign of Bolshevism would be a repetition of the reign of the Commune in Paris after the war of 1870.

Russia.

The situation in Russia is greatly improved by the elimination of German influences and by the opening of the Black Sea, the latter enabling the allied countries to communicate with the Ukraine region and Southeastern Russia, which are not under the domination of the Bolsheviki. All of Siberia is friendly to the allies, under the government now established at Omsk, but the Bolsheviki have recovered Samara and other points on the Volga River. The government at Omsk is said to have in its possession approximately $400,000,000 in gold, or one-half of the reserve which was held by the Russian State Bank at the beginning of the war. This is a good start toward a financial system, and a considerable portion of the remainder of the gold stock will probably be recovered from Germany. It is not thought that the Bolsheviki have much of the gold in their possession. More good news has been received from authentic sources to the effect that in some portions of Russia the yield of wheat last summer was phenomenally large, something like the freak crop of Canada in 1915. As a result it is now estimated, that although in some sections production was low on account of the social disorder, on the whole there is grain enough in Russia to feed the population if order is restored so that it can be distributed. The worst situation is that in northern Russia, where the populous cities are located in an unproductive region, controlled by the Bolsheviki, who boldly announce their intention to feed none but their own partisans, and are rapidly exterminating all others.

Belgium.

In the countries of the Entente conditions are far brighter, notwithstanding the great losses they have suffered. All are working upon plans for rehabilitation. The Belgian people have welcomed the King and Queen back to Brussels. Antwerp, the chief commercial city, is resuming business, having suffered but little damage to property. The gold reserve of the National Bank of Belgium is intact, having been taken out of the country. Backed by the government, it will be in position to supply domestic credit, but of course Belgium will need help from outside to supply it with food, machinery and raw materials. The machinery taken away by the Germans will probably be returned, as one of the peace treaty conditions.

England.

In England, the Prime Minister has announced that an election will be held at once to give a new Parliament, there having been no election since the war began. Lloyd George wants a coalition government which will support him in negotiating the terms of peace, participating in the organization of a League of Nations, and in carrying out a constructive program in domestic and imperial affairs. There is no intention in England of allowing things to simply drift, with industry disorganized and the business community confused by uncertainty and divided opinions. There is a bold avowal that the industrial situation will be supported, if need be, by a program of public expenditures, and that unemployment will be prevented. This does not mean that the government is proposing to enter general industry on its own account, but simply that it recognizes the dangers of the transition period and the advisability of helping to establish confidence at this juncture. England is still a creditor country on a large scale, notwithstanding her borrowings in the United States and sales of American securities. Her loans made to her allies and colonies during the war exceed what she has borrowed here, although some of these items are far from being available assets at present.

France.

Americans returning from France say that the country presents the aspect of a general state of activity and prosperity, outside of the war-devastated districts. The expenditures of the American and English governments and of the American and English soldiers have put a great amount of money into circulation, with the result that the incomes of wage-workers and shopkeepers are beyond anything that

they have ever known before. In the devastated districts the losses are very great. Government credit will have to be used to rehabilitate this region, and presumably reimbursement will be exacted of Germany. Reimbursement, however, is an after-chapter; France will not wait on Germany's ability to provide the means of reconstruction. The task presents itself as a huge contract for its own industries. Before the war 85 per cent of the iron and steel production of the country was made in the territory which was taken by the Germans in the first weeks of the war. During the war this lost capacity was made good by the construction of new works in other parts of France. Therefore, if the old works of the invaded region have not been destroyed—and they are understood to have been in use by the Germans up to the last—the iron and steel capacity of France is double what it was before the war. This is saying nothing of the Lorraine district, where 75 per cent of the German iron and steel production has been located, and which will undoubtedly be restored to France.

To sum up, France just now is in a strained situation as regards ready capital, and she has suffered severely by the loss of man-power, but she is greater in national spirit—and probably in the productive capacity of her people—than ever before. If the latter is not so at the moment, it soon will be so. She needs aid in getting her people back into homes, and in putting tools into their hands, and in supplying them with the materials needed in the industries. So far as practicable, she will want to do this with her own labor, but time is a factor and doubtless she will want to buy a great deal of equipment and it will be necessary to buy the materials which are not produced at home. While the French people are engaged in this work for reconstruction they will be able to do less for exportation than formerly, and for that reason they will require to have credit for their purchases, and they will be less of a competitor in world markets. It is needless to say that French credit is good in the United States. France is a creditor nation today, and while her national indebtedness is large, it is to her own people, so that as to affecting her credit in other countries it does not count at all.

Italy.

The Italian nation comes out of the war stronger than ever. It will recover the long-lost territory inhabited by Italian people, and although it has made sacrifices of life and money, it is stronger in productive capacity than before the war. Its industries have been enlarged to provide war equipment and are now available for peace business. It has borrowed some money of Great Britain, France and the United States, but it has won a new place in international affairs and has entered upon a new and greater career. The people have been revivified and modernized by their efforts. A new and greater Italy is born. The industries of the country will be expanded in the future, her people will be more effectively employed and live better. Important plans for industrial development are under consideration. Italy has always been handicapped in industry by want of fuel, but there are great possibilities for her in electrification by water power. The internal debt will be no embarrassment if this development of industry takes place.

The Problem of Reconstruction.

These opinions as to the speedy recovery and future prosperity of the countries which have suffered so heavily by the war will be questioned in some quarters. There is a pessimistic view, which holds that these countries must be in a state of exhaustion, that so much capital has been wasted, and so great a mortgage has been placed upon the national income in the form of indebtedness, that they are necessarily reduced to a condition of poverty from which they will be long in recovering. Nobody, it is said, will be able to buy anything and industry will be prostrate.

This theory is essentially the same as the one very commonly held at the outbreak of the war, that the conflict must of necessity be short because the expenditures were so great that they could not be long continued. The money, it was thought, could not possibly be raised to keep the treasuries going more than a few months. We know now that something was wrong about that theory, for after four years of war all of the governments were spending money at a higher rate than at any previous time, and the war did not come to an end for want of money.

Expenditures from Current Production.

The error in that theory was in supposing that the expenditures would come from a reservoir of previously stored-up wealth, which would soon be exhausted, but we see now that the expenditures upon the war, for the most part, consisted of things produced from day to day while the war was going on. All wealth at last is in the form of property or goods of some kind. The only wealth destruction that takes place is of property, and it gives a clearer idea of the losses to think of them in terms of property than to think of them in terms of money. If a country is producing as much as it is consuming or destroying it is not getting worse off. It may be consuming what it ought to be accumulating, but this occurs even in time of peace, and is another proposition.

The truth is that during the war the energies of the belligerent countries were concentrated upon producing a stream of supplies and equipment for the war, all of which were swallowed up and disappeared. That was economic waste truly, of something that might have become capital, but it never was capital. It was a waste of energy which from the economic standpoint might have been better employed. It was a real waste, and we hope the world will have wisdom enough to avoid its repetition in the future, but except as a country's ability to produce a flow of economic goods is reduced it is not worse off economically than it was before.

Much of this war waste was offset by the increased energy, economies and more complete employment of the people, including the entrance of women into industry. Moreover, this expansion of industry and the practice of economy extended all over the world. The neutral countries by increasing their production, by consuming less and by putting a check upon their development work have helped the warring countries to bear their burdens. The effect is spread over the world.

The Real Basis of Prosperity.

The test, therefore, of a country's ability to recover from the war and to regain a state of prosperity, is in its capacity to produce a flow of goods for trade and to supply the wants of the population. It is not a question of how much money has been expended on the war or the size of the national debt. It is a question of production. How much grain, meat, fruits, cotton, wool, coal, oil and factory products are coming to the markets? What is the available amount of machine power? What is the state of the industrial organization and what is the banking power? If the facilities of production and distribution are as great as ever, there is no real obstacle in the way of prosperity.

In some of these countries there has been a destruction of industrial equipment and in all some impairment by wear and tear and neglected upkeep, but there have been also important additions to capacity through new works constructed to supply war needs but which are adaptable to make peace goods. Furthermore under the pressure of war needs there has been a development of knowledge and of methods in industry which will permanently increase production. These gains must be taken into the reckoning, and when all factors are considered it probably will be found that none of these countries is going to be a very long time in reaching its pre-war production, provided there is no disturbance of industry. If social disorder prevails of course the flow of products will be cut off, as in Russia.

Burden of National Debts.

The national debts are often alluded to as a great incubus, but payments upon a debt which is held within the country do not deplete the national wealth. It is unfortunate for a country to incur a debt for an unproductive purpose but the loss occurs when the expenditures are made and does not occur again when the debt is paid. All that occurs at the time of payment is a circulation or transfer of capital, which is vastly different in its effects upon the general welfare from a destruction of wealth. The government collects from one set of persons and pays to another set of persons, and there is no reason to question that the capital will be as publicly useful in the hands of the second set as it would have been had it remained in the hands of the first set. It is presumably just as available for use in industry in the hands of one set as with the other, and that is the chief public interest in private capital.

It must be remembered that the debt itself, or the income from it, is subject to taxation, so that while the debt is certainly not wealth, the basis of taxation is enlarged. The methods of taxation of course are important in their immediate effects, but in the long run there is a natural adjustment which distributes the burden finally. There are endless unseen reactions and compensations throughout the community in such a process of collection and disbursement, which minimize apparent inequalities. If the productive power of the country is maintained and the products are distributed to and consumed by the people, the common welfare will not suffer. All classes are interested in this broad distribution. Wages and prices are continually in course of automatic adjustment to accomplish distribution and consumption; if it were not so, an increasing product would pile up, industry would choke down and further accumulations of capital would be useless and unprofitable. In a modern industrial community the output must be distributed to the masses; no other disposition can be made of it. The situation must find an equilibrium; consumption must equal production. In the modern community it is impossible for the rich to grow richer and the poor poorer, because an increase of riches means an increase in the productive equipment, an increased demand for labor, and a greater supply of goods to be distributed to the population. We may conclude therefore that the national debts will not be paid by diminishing the consumption of the people.

The debts will grow relatively smaller, even if no payments are made on them, as industry becomes more productive. Industry was making rapid strides before the war, and its progress will be accelerated in the future. Every discovery that saves labor cheapens production and increases the average individual income and diminishes the importance of the debts.

The Industrial Flow.

The Bolsheviki make the same error as the people who thought the war would be fought by dipping down into a reservoir of wealth. They

want to seize upon existing riches, but the properties which they have seized in Russia are of no value to them, because those properties are merely agencies for producing wealth, and in the hands of the Bolsheviki they are producing nothing. It is the steady and always-increasing flow of consumable products which is of concern to the public. All of the benefits from these properties come out in the flow. The industries are not producing for the owners but for the consuming public. The farmer is not raising grain for himself but for the bread-eaters, and upon the intelligence and industry with which the farms are tilled depends the welfare of the consumers. Any scheme for changing the management of the properties which reduces the output or increases the cost of the output, is harmful to the whole community.

This inclination to place the emphasis upon ownership of the agencies of production instead of upon volume of product or character of service is manifested by a great many people who are not so radical as the Bolsheviki. It is the weakness in all of the proposals to put the government into business operations. It is advocated as democracy in industry, but it is government from the top and really autocracy and bureaucracy in industry. It results as autocracy and bureaucracy always do in a dead, unprogressive and costly regime. A few men at the top cannot successfully do the thinking and planning for all society. There are undoubted advantages in concentrating authority temporarily for a great national effort, but there must be free play for the individual forces to achieve progress. The most important consideration to be borne in mind about the industrial organization is that there are always endless possibilities of development and the real progress of society comes in this manner.

Position of the United States.

It would be going too far to affirm that the United States has profited by the war, for nobody can strike a balance between what it has gained by the war and what it would have gained in the normal order of things had there been no war. But it is certain that the country comes out of the conflict in a much stronger position than it was before. It has become a creditor country, it has increased the capacity of many of its important industries, it has the good will of other nations to a higher degree than ever before. The opportunities open to it are greater than it has ever faced before.

We have an enormous capacity for the manufacture of steel, machinery and equipment of every kind and the whole world will be wanting these things. Everywhere, even in the backward countries, there is an awakening to the possibility of producing a greater flow of the goods wanted for the welfare of the people, and machinery is the means for doing it. To supply such equipment, however, it will be necessary for us to perform the usual part of a creditor nation and finance the construction work, taking pay in proprietary interests and securities. This is the method by which Great Britain and Germany built up their trade and obtained their extensive foreign interests. As for sales for reconstruction purposes in Europe, it is evident from the state of the exchanges that we can make none except by the extension of credit, and this does not mean ordinary commercial credit but long term credit. We must expect to take securities and when the interest comes due take more securities for that. This is not a situation due to the poverty of the countries, but to unavoidable conditions. They cannot spare gold in the sums that would be required and if they did we could not afford to receive it, for reasons which will be referred to later. They cannot begin to produce largely for exchange until they accomplish their rehabilitation; moreover, there will be a question as to what extent we will want to admit goods which come into competition with our own production. There is, then, no way satisfactory even to ourselves of receiving pay immediately except in securities. In other words, if we want to make sales to them payments must be deferred. Eventually we must expect to so integrate our industries to theirs that we can actually trade with them on a mutually advantageous basis.

The Business Outlook.

It is not possible to doubt that a great period of prosperity awaits the country as soon as the readjustments to a peace basis are made, and in our opinion the required readjustments are not such as to occasion alarm. The situation is inherently strong. Stocks of goods of all kinds are low all over the world, and people have been economizing in purchases until their needs are pressing. This country could have had a great foreign trade during the past year despite high prices, but for the embargoes and shortage of shipping. Construction and repair work is behind. Germany, the greatest steel exporter before the war, has exported none for four years. Belgium and France, also exporters of steel have sold none in the same time and England's sales have been greatly reduced. These arrearages naturally must be made up. In the past the consumption of steel was always rapidly increasing, and it may be expected to increase even more rapidly in the future. The demands of Europe upon the European supply will be so great that the other world markets will have to look largely to the United States for early attention. Furthermore, this country's capacity to absorb iron and steel is very great, and there is unquestionably a heavy domestic demand in waiting. The one question which cannot be definitely answered is as to the level of prices at which this demand will come forward promptly.

The Price Question.

The end of the war raises a question as to the future of prices which of itself puts a check upon buying. Every dealer wishes to keep his stock as low as possible while this question is pending; nevertheless once they are low they must be replenished in order to continue business. Consumers will hold off to some extent also if they expect prices to fall, but where great numbers of people are in possession of more funds than usual, as is the case to-day in many countries, the United States included, a very high degree of restraint in personal expenditures is not to be expected. Expenditures which represent capital investments are more directly affected. Business men are reluctant to put capital into permanent investments at a high level of costs, because it means permanently high costs for their products. Business prudence dictates delay in the case of new enterprises, unless there is some special advantage to be gained by haste. In the case of repairs and replacements delay may be impracticable.

The indications are that there is a good volume of business which will come forward at present prices or with moderate concessions, and more as reductions occur. Including the whole field, there is an assurance of business which in ordinary times would be considered an unusually good outlook for the next year. This is especially true in sections where the agricultural and metal mining interests predominate and prosperity in these regions will react upon the manufacturing states. It is only by comparison with the enormous government demands of war time that the prospect appears doubtful. It goes without saying that war-time conditions will not continue and it is not desirable that the pressure of war-time should continue. There has been a demand for materials and labor in excess of any possible supply, and the conditions thus created in the nature of things were abnormal and temporary.

Cost of Living.

It cannot be questioned that the general tendency will be downward from present levels, but there are counter influences which will tend to hold the movement in check. The most important of these influences is the high cost of living, which, owing to the situation in food stuffs and clothing materials seems not likely to decline much before another world's crop has come to market. It is very desirable that the general wage scale and living costs shall decline together, so that the wage-earner may lose nothing of his present command over the goods which enter into his budget.

In due time the cost of living will certainly come down. It would be impossible by any concert of action that can be imagined to keep farm products at the present level. They are bound to follow the law of supply and demand, and the development which is going on in agriculture, together with the demobilization of the armies will bring them down. The farm tractor is an agency which will have an important effect, especially in the opening of new lands, and there are numerous influences at work. But when farm products come down, so that the farmer is feeding the industrial population at lower prices, he will expect that the industrial products which he buys will also come down. It will be unfair to him if they do not, and if they should not do so promptly there will be a renewal of the movement away from the farm and into the town industries until the equilibrium is restored by natural forces.

Of course it is to be hoped that in these readjustments all parties will gain something, and that will be the case if they all improve their methods and are loyal and fair to each other as partners should be. They are all members of the productive organization, exchanging services with each other, and if they all increase in efficiency, they will all find their labors bringing them larger returns. And no class can increase its net earnings in any other way without reducing the share of the others.

The Transition Period.

Doubts as to the future, therefore, relate to the transition period. It is recognized that there are inevitable difficulties about the transfer of millions of men from the armies and war industries, where their services produce nothing for the public market, back to the peace industries, where everything they produce must be absorbed and taken off the market by the public demand. It is evident that there must be a general readjustment of trading relations, or in other words, of wages and prices, which is a process that takes time. It cannot be regulated by any arbitrary authority. It must work itself out. There has been talk of having the Government fix minimum prices, to prevent a too rapid decline, but it is evident that the Government's control over rising prices, although not absolute, is greater than over falling prices. The producers would not want the Government's minimum maintained if the public failed to buy at that level, and fixing the minimum would accomplish nothing unless the Government stood ready to take the output.

Public Works.

There is one way, however, in which the Government might contribute effectively to stabilize the situation, and that is by providing a program of expenditures upon public works to take the place of war expenditures. The shift of labor from public employment to private employment would thus take place gradually, instead of suddenly, the readjustments would be made gradually, and the confusion and disturbance which is apprehended would be minimized and no longer feared. The French Government already has made appropriations aggregat-

ing $680,000,000 for peace work, of which $360,000,000 is for the railways, $200,000,000 for ports, bridges and road construction, and $100,000,000 is to be alloted to the communes and provinces to aid their undertakings. In Italy appropriations have been made of approximately $350,000,000 for railways, $200,000,000 for public works, $100,000,000 for public utilities, $20,000,000 for adjustment of unemployed labor. What would the appropriations of the United States amount to on that scale if made in proportion to our resources? In England a similar policy will be pursued by the national government.

The only effective assurance against unemployment or wage-reductions is by having a program of work to be done. The situation is an extraordinary one and therefore justifies unusual precautions. It is quite unnecessary for the Government to continue expenditures upon anything like the present scale, or that it should employ anybody for the mere purpose of providing work. There is now a general scarcity of labor the country over, and the wants of private industry should be supplied as rapidly as possible by releasing men from the Government operations. In the case of enlisted or conscripted men it might well be a selective demobilization, as illustrated by the release of anthracite coal miners, so that those who do not have definite employment in view would be the last to leave the service.

Wanted, an Industrial Program.

The Secretary of the Treasury has already ordered the resumption of work upon public buildings. There are so many worthy projects for the improvement of ports and waterways of real importance that it is quite unnecessary to include in such a program any undertaking which is not of fundamental merit. Furthermore, under the leadership of the federal government the cooperation of states, municipalities and minor branches of the public administration undoubtedly may be secured. While in ordinary times expenditures upon public works should be made upon the same principles of economy which are observed in private undertakings, it is not fundamental in the present situation that costs should be compared with what they may be at a later time. There is no loss more complete or waste so deplorable as that of having men idle because they cannot find work. The country will be better off to have work of this class go forward on a scale sufficiently large to absorb any portion of the labor supply not otherwise in demand.

Society has just been taught the great lesson that if there is complete employment for all the people even the enormous wastes of war may be endured and yet a state of general prosperity be maintained. With the pressing needs of the world at this time for commodities of all kinds, unemployment can only occur as the result of general industrial disorganization and confusion. Society should show itself capable of averting such a condition.

An illustration of the conflicting interests and cross purposes which inevitably confuse the community as a whole is seen in the conflicting policies of government departments. While the industrial department goes on approving wage increases, and the war and navy departments go on temporarily with war material contracts for the sake of keeping labor employed, it is announced that the railroad administration will not make any more equipment contracts until costs are lower. It is a very doubtful policy to spend a dollar for war material which there is no likelihood of ever using, but it is wise policy to provide against unemployment and industrial confusion by shifting labor to useful public works.

It would be good policy to allow the railways and public utilities of all kinds to make a depreciation charge to cover the actual difference between the cost of making extensions and improvements now and the cost of making them at the level of wages and prices which is finally determined to be normal and permanent.

This would mean of course that the railway and public utility commissions would allow the companies to be compensated by adequate charges against the public, but the public could afford to pay the cost for the sake of stabilizing the industrial situation and maintaining general prosperity.

Living Costs the Vital Factor in Readjustment.

The contrary view is that a general readjustment is inevitable and that the sooner it comes the better. If a general readjustment was possible at once there would be much force in this argument, but a general and fair readjustment which will be accepted without contention will not be possible until the agricultural situation rights itself the world over, so that living costs can decline.

Living costs must be recognized as the fundamental factor in the industrial situation. In the long run, with industry free the industries will come naturally into fair relations with each other, but in a time like this intelligent guidance is temporarily needed. What is required now is that labor should be shifted to productive work, so far as possible without controversy, until this most serious obstacle to a fair readjustment naturally disappears. With proper leadership and management, aided by general good will, this can be accomplished and the cost spread over the community so widely that nobody will feel it, and in fact the cost will be less than that which might result from allowing the situation to drift.

Although it is desirable as a general principle that wage changes should occur only in conformity to changes in the general level of living costs, of course this rule would not apply in cases where owing to peculiar conditions wage rates have been abnormally inflated and are out of

line with the general wage level. There are obvious instances of this kind. The effort should be to maintain just conditions.

Weakness of an Unorganized Situation.

It is the uncertainty of an unorganized situation which makes it dangerous. In the old days before the Federal reserve system was organized, when every banker felt that he was an isolated factor in the banking situation, the first cloud in the sky caused each one to grab what money he could and lock it up in his own vault, the very action, certain to precipitate a crisis. And yet that action was perfectly natural: each banker felt that what he personally might do or refrain from doing would be of small influence upon the general situation, although perhaps vital to his own institution. It seemed useless to forego taking such precautions as he might for his own protection, since the general situation was beyond his control.

And so in the present industrial situation each individual feels that what he may do or not do will be of small influence upon the general trend, and is disposed to wait and see what everybody else will do, a policy of inaction which tends to industrial disorganization. What is needed to meet the situation is a constructive policy, with leadership strong enough to give assurance that the situation is not going to fall to pieces. With the great amount needing to be done this assurance may be all that is needed. Voluntary action—a general impulse to go ahead with private plans—may leave nothing more for the leadership to do.

For years water-power development has been at a standstill in the United States, under the influence of a fear that if the development occurred the waters now running idly to the sea might make too much money for somebody. This would be an opportune time to have water-power development proceed.

Business Interests.

The interests of merchants, bankers, railway owners, manufacturers, and the entire list of people who compose the trading and employing class is in maintaining well-balanced, efficient industry, with all wage earners employed at good wages and farmers receiving fair prices for their products. In other words, these business men, who are often the subject of attack, are interested in the largest possible flow of products through the channels of trade. They are interested in having the purchasing power of the masses constantly increase to correspond with the increasing production and flow of goods, as processes are improved and new capital is accumulated in industry. It is true that individual employers will want to get labor as cheaply as possible and may be so selfish as to wish to evade their own obligations, but the interests of employers as a class are in having a prosperous community in which to sell their goods. The employers who fail to see this are blind to their own interests. There are such, of course. Unfortunately there is so much ignorance of mutual interests in all classes that none is entitled to indulge in unrestrained indignation at others on this account. The real social problem is how to bring about a general comprehension of the interests which all have in common.

When such comprehension is attained it will be seen that the entire community is interested in developing the capabilities of all its members to make them efficient wealth-producers. The war experiences have taught how dependent the nation is upon the intelligence, the industry, the skill and fidelity of all its citizens. It is the high average efficiency which makes a great people, and it should be the constant care and purpose of the community to bring up to the standard those who are below it.

The war is over, but the Councils of Defense should not be dissolved. In every county and community they should go on with the work of developing the latent resources about them and above all else the neglected human resources. This bank is greatly interested in the development of foreign trade, but it does not hesitate to say that the possibilities of foreign trade, important though it believes them to be, are insignificant compared with the possibilities which lie in increasing the purchasing power of our own people.

Government Loans.

The final figures of subscriptions to the Fourth Liberty Loan, by districts, were as follows:—

District	Quota	Subscribed	Per Ct.
Boston	$ 500,000,000	$ 632,221,950	126.44
Richmond	280,000,000	352,688,200	125.95
Philadelphia	500,000,000	598,763,650	119.75
Cleveland	600,000,000	702,059,800	117.00
Dallas	126,000,000	145,944,450	115.82
Minneapolis	210,000,000	241,628,300	115.06
San Francisco	402,000,000	459,000,000	114.17
St. Louis	260,000,000	296,388,550	113.99
New York	1,800,000,000	2,044,778,600	113.59
Atlanta	192,000,000	217,885,200	113.48
Kansas City	260,000,000	294,649,450	113.32
Chicago	870,000,000	969,209,000	111.40
Total	$6,000,000,000	$6,955,217,150	......
United States Treasury		33,829,850	......
Total		$6,989,047,000	116.48

Payments received at the Treasury upon the loan to November 26 aggregated $5,262,525,662.

The Secretary of the Treasury has announced that the full proceeds of the loan have been expended, the unpaid portion having been anticipated by the sale of Treasury certificates, which are yet to be paid. He is planning for one more large loan, to be offered next April, probably for $5,000,000,000, although the amount is not named. In the meantime the Treasury will be supplied with funds by the sale of Treasury certificates, of which there will be an offering every two weeks, the first to be dated December 5, 1918, fall due May 6,

1918, and draw interest at 4½ per cent. The Secretary asks every national bank and every state bank and trust company to subscribe to each offering at the rate of 2½ per cent. of its gross resources or 5 per cent. per month. The total of subscriptions asked for from each bank in five months will therefore be 25 per cent. of its gross resources.

The Secretary states that disbursements for current expenditures, including loans to Allies, from July 1 last to November 23 aggregated $8,213,070,568, and that for the month of November they will be close to $2,000,000,000. Settlements upon war contracts will probably make the expenditures even higher in the next few months.

The Secretary indicates that the next loan will be for a shorter term than any of the preceding ones, probably not over five years, which in view of the fact that the war is over is undoubtedly good policy. For the same reason it probably will be advisable to make the interest rate conform more closely to the market rate. It will be a more difficult task to secure a wide distribution of a great loan below the market rate than in war times. The situation will be eased, however, by the fact that the rate on corporation securities is tending downward, and that the end of government bond offerings is in sight. If the present holders of government bonds could be counted on to keep them with the tenacity usually characteristic of the owners of government securities the Liberty Bonds would go above par promptly, but no one can foretell how many will come on the market when all patriotic restraints are loosed. There will be all sorts of propositions to take them in trade, for other stocks and bonds, merchandise, town lots, homes, etc., etc., and the traders will market them. The extent of these operations is the uncertain factor in future prices.

The Banking Situation.

The total earning assets of the Federal reserve banks on November 22nd, were $2,255,560,000, as against $2,295,122,000, on October 25th, $2,080,566,000 on September 27th, $1,345,112,000 on June 28th and $979,141,000 on November 23, 1917. The expansion since July 1st has been very rapid, and it was not pleasant to contemplate a continuance at that rate for another year, but happily the worst is over. The crest of the demand for money is probably past, for although the Government will require a great deal in its settlements, its payments will be in liquidation of war contracts without renewals of them, and the recipients, instead of holding on to the funds for continued operations will be paying off their obligations. During the past year costs and prices have been on a rising scale, constantly absorbing more capital or credit, but from now on there will be at least moderate recessions in both industrial activity and the prices of commodities, with the result that less bank credit will be required. Even if the peace demands upon industry should be equal to the most sanguine expectations they will not be so imperative and regardless of costs as war business of necessity has been. Already there is an easing of the situation. Offerings of commercial paper are lighter, indicating either that operators are expecting to use less money or that they are holding off to see what the developments may be. In this their attitude is like that of the buyers of merchandise. In view of the loaned-up condition of the banks, and their natural inclination to reduce their re-discounts, there will have to be a very considerable degree of liquidation before commercial rates are much affected. The probability that the banks will have to do an even larger proportion of the Treasury financing in the future will also tend to sustain rates. Beginning at once the Treasury will offer from $1,000,000,000 to $1,500,000,000 of certificates to the banks every month, and although these funds will be promptly disbursed, that amount of credit will be tied up in the circuit until the Government's current obligations are materially reduced. The first affect of these Treasury borrowings may be to tighten the money market, but a relaxation must follow as the funds are applied upon private indebtedness.

Bank Reserves.

A very great change has taken place since 1914, in the banking situation of the United States and in the ability of the banks to provide credit, as a result of the establishment of the Federal reserve system and consequent alterations in the reserve requirements of the national banks. The stock of gold in the country has increased by approximately $1,250,000,000 and the stock is now more closely concentrated in the reserve banks than it formerly was in the national banks. Just before the Federal reserve banks began business in November, 1914, the total amount of all kinds of reserve money in national banks was $925,553,000. On November 22, 1918, the reserves of the twelve reserve banks aggregated $2,116,257,000, of which $2,060,265,000 was gold. Each dollar of this reserve money has much greater reserve efficiency under the law than it had in the national banks under the old law.

It is evident therefore that if the general level of prices and volume of trade should decline to anywhere near what it was before the war several interesting changes in the banking situation will occur. The practice of rediscounting at the Federal reserve banks will fall into innocuous desuetude and the earnings of these banks will decline accordingly. The deposits of all banks will diminish by liquidation, being checked off to pay loans, and the percentage of reserves to the remaining deposit lia-

bilities consequently will be high. The result of such a situation will be a demoralization of interest rates, such as characterized the period in 1915 and 1916 when gold was coming into this country freely. The stock was taken up rapidly at that time by expanding industry and rising prices. The war created an unlimited market for goods of many kinds, and every employer in good credit was actively bidding in the market for labor and materials. There were definite contracts to work on which warranted this activity. The bank reserves and available credit will be present in 1919, but will there be contracts offering which will warrant similar activity on the part of employers? If not, then there is going to be a surplus of gold in the country, idle and useless here, and if it is wanted somewhere else the logical course will be to send it there, just as we do wheat when we have a surplus of that commodity.

Redistribution of Gold.

In other words, if we have more gold than we can use, and other countries need it; if under war conditions we have obtained more than our normal share of the world's supply, a redistribution is in order and there is likely to be a profit in buying or borrowing gold in New York and selling it in London, Paris or Berlin. We say that this will be the logic of the situation, but there may be difficulties about it. The chief difficulty will be about the manner of paying for it. What will they give for it, with the balance on account already so heavily in favor of the United States? Will they give us goods for it? At the beginning they will certainly need commodities, raw materials and equipment more than they do gold. Will they give us securities or plain promissory notes for it? That is more likely at the first, but how fast are we prepared to absorb foreign loans? The public market has taken very few as yet. The $8,000,000,000 which the United States Government has taken from foreign governments signifies nothing as to the readiness of our investment markets to take a direct distribution of foreign stocks, bonds or notes. That they can be sold in very considerable amounts, in the event of a plethora of funds here we have no doubt, but can they be sold in such amounts as to relieve us of surplus funds?

If we already have more gold than we can use of course it will be preposterous to have more coming here in payment of the interest on the foreign indebtedness which we hold. We will have to at least take securities for that, and for any balance on merchandise account.

There are people who will listen with amazement to the suggestion that we ought to get rid of some of our gold. It seems altogether inconsistent with our embargo, still in effect, under which we forbid the exportation of gold even to pay our legitimate debts. But it was pointed out two years ago when the heavy importations were made that they involved an after-the-war problem. The perils of having more than our rightful share of the world's gold were pointed out at at that time. They exist in the fact that in the long run there is a relationship between the gold reserves, the state of credit and the level of prices. Gold does not lie indefinitely idle. While it is idle it is harmless, but when it is used in excess it works mischief. Nothing but a condition of industrial activity and level of prices approximating that which we have been experiencing during the war can keep this stock of gold employed, and at this level of prices it is very doubtful whether we can sell anything abroad after Europe has resumed production at the normal rate. In other words this stock of gold seems likely to be either idle on our hands, in which case it is dead capital, or, if in use as the basis of credit, the means of elevating us to a trade position so far above that of the world outside that it will be untenable.

Our Relative Share.

We speak of probabilities because it is not altogether clear that we have much more than our share of gold, or that prices abroad will fall much more than here. The monetary situation of the whole world has changed as a result of the war, both as regards gold stocks and the use of paper money. Although our gold reserves have increased, the gold reserves of nearly all countries have increased. Besides the new production of the last four years, an immense amount of gold has been withdrawn from circulation and accumulated in the banks of issue. In all the warring countries the governments have appealed to the public to deposit gold and take bank notes or Treasury notes in exchange and the public has done this on a large scale. The gold stock of the Bank of Germany has risen from about $338,000,000 to about $620,000,000, without any importations unless possibly from Austria-Hungary, and it has no domestic production. The gold holdings of the Bank of England have increased from $190,000,000 at the outbreak of the war to about $365,000,000 besides which the Exchequer has set aside about $140,000,000 as a reserve against its own currency notes. This gold has come largely out of circulation. This process of concentrating the gold holdings of the countries in the central banks for reserve purposes evidently increases the available supply and the policy will be maintained. A British Parliamentary Committee on the currency has reported in favor of continuing paper money in circulation for this purpose.

Gold Holdings in 1914 and 1918.

The holdings of the principal depositories of gold the world over at the outbreak of the war and at the latest obtainable date were approximately as follows:

	1914	1918
Bank of England	$190,000,000	$365,000,000
Exchequer Note Reserve	....	140,000,000
*Bank of France	804,000,000	663,000,000
Bank of Germany	338,000,000	620,000,000
‡Bank of Russia	776,000,000	400,000,000
Bank of Netherlands	65,000,000	285,000,000
†Bank of Italy	231,000,000	210,000,000
Bank of Spain	105,000,000	430,000,000
Bank of Switzerland	35,000,000	74,000,000
Bank of Norway	14,000,000	32,000,000
Bank of Sweden	28,500,000	73,000,000
Bank of Denmark	21,000,000	50,000,000
Bank of Japan	110,000,000	325,000,000
Argentine Conversion Fund	194,000,000	§378,000,000
	$2,911,500,000	$4,045,000,000

* The 1918 figures are exclusive of about $400,000,000 reported as abroad, which is presumed to be a foreign credit.

‡ The 1918 figures are for amount said to be in hands of government at Omsk. Amount in hands of Bolsheviki, Ukraine or Finland governments unknown.

† Cash.

§ Including gold in legations.

It will be seen that the neutral countries have all increased their gold holdings, and that the Banks of England and Germany have both done so. The neutral countries probably will not retain their present holdings after the normal trade conditions are restored, as a redistribution will be natural. There is a great circulation of paper money in all of the countries which have been at war, which has not been convertible, and which is a factor in prices. After conditions are settled the Treasuries will doubtless endeavor to fund this paper largely into bonds as a preliminary to the resumption of gold payments, but the trade exchanges will have to be established on a normal basis before the free redemption of paper money will be attempted. Even after resumption has been announced a degree of control over gold movements, such as was always maintained in France and Germany may be exercised, and under such conditions the banks of issue may get along with smaller reserves than were customary in recent years preceding the war, and continue in an inflated condition. That may be the easiest way to avoid reducing nominal wages.

It will be recalled that after our civil war the program for retiring the greenbacks which was adopted by the Secretary of the Treasury was stopped by Act of Congress, upon the theory that it was better to let the country grow up to the existing money supply, and the greenbacks have not been retired to this day.

Effect of Foreign Credit Conditions in United States.

What we are interested to know is whether the European credit situation is going to remain sufficiently expanded to maintain a price-level corresponding to that which will normally result in the United States from our present banking reserves. If it is then we will not be at a disadvantage in that respect and no redistribution of gold will take place from here, but this will mean that the general price level the world over is to remain considerably above what it was before the war. It will also mean that the present unfavorable position of the creditor class, of people who have fixed incomes, of public utility corporations and of the gold-mining industry will continue.

If this is to be the situation, the liquidation of credit in the United States will only go far enough to place the banks in an easy position, with a normal percentage of reserve; or, if it goes farther the decline will be temporary, until confidence in the level of prices is regained. As stated above an abnormal excess of reserves will not be maintained very long. Either gold will go out of the country or low interest rates will encourage speculation and enterprise until a normal relation between reserves and credit expansion is attained. As we have seen, there are practical difficulties about exporting gold.

It will be seen that the Bank of England has more than made good in its reserves the gold which it sent to this country, but its percentage of reserve to liabilities is much below that of former practice.

The Cunliffe Committee.

The report of the British Committee upon "Currency and the Exchanges after the War" headed by Lord Cunliffe, late Governor of the Bank of England, shows that if the advice of that eminent body of financiers and economists is followed, England will get upon a working gold basis and eliminate the inflation from its currency as quickly as practicable, but with careful regard for the international situation.

The Committee says that the rise of prices has been much increased by the inflation of bank credit. The London Economist summarizes the findings and mingles its own comments in an editorial article November 2nd, from which we make the following extract:

"The effect of these causes upon the amount of legal tender money (other than subsidiary coin) in bank reserves and in circulation in the United Kingdom are shown in the following paragraph.

The amounts on the 30th June, 1914, may be estimated as follows:

Fiduciary Issue of the Bank of England	£18,450,000
Bank of England Notes issued against gold coin or bullion	38,476,000
Estimated amount of gold coin held by Banks (excluding gold coin held in the Issue Department of the Bank of England and in public circulation)	123,000,000
Grand Total	£179,926,000

The corresponding figures on the 10th July, 1918, as nearly as they can be estimated, were:

Fiduciary Issue of the Bank of England	£18,450,000
Currency Notes not covered by gold	230,412,000
Total Fiduciary Issues	£248,862,000
Bank of England Notes issued against coin and bullion	£ 65,368,000
Currency Notes covered by gold	28,500,000
Estimated amount of gold coin held by Banks (excluding gold coin held by Issue Department of Bank of England), say	40,000,000
Grand Total	£382,730,000

"There is also a certain amount of gold coin still in the hands of the public which ought to be added to the last mentioned figure, but the amount is unknown."

When to this addition of £200,000,000 to legal tender currency we add the £670,000,000 of potential currency, created in the shape of additional bank deposits, up to the end of last year, there is little need to look further for causes of the rise in prices.

It is thus clear to the Committee that "the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay." Government borrowings, done in the wrong way, have produced a state of things in which cur-

rency is multiplied without any regard to its gold backing. So Government borrowings should cease at the earliest possible moment, and "an adequate Sinking Fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt." Money needed for reconstruction purposes "should not be provided by the creation of new credit," and "in so far as such expenditure is undertaken at all, it should be undertaken with great caution. . . . . The shortage of real capital must be made good by genuine savings. It cannot be met by the creation of fresh purchasing power in the form of bank advances to the Government or to manufacturers under Government guarantee or otherwise, and any resort to such expedients can only aggravate the evil and retard, possibly for generations, the recovery of the country from the losses sustained during the war." A timely recognition of these homely truths would enable many well-meaning gentlemen who propose to cure all our post-war ills by multiplying money and credit instead of goods, to take a well-earned holiday, most beneficial to themselves and to the public. "Under an effective gold standard all export demands for gold must be met," and foreign claims must consequently be checked as before by the use of Bank rate. The Committee expresses the obviously sensible view that the differential rates for home and foreign money, which have saved us so many millions in the cost of Treasury bills, are neither practicable nor desirable when the war is over. "The low home rate, by fostering large loans and so keeping up prices, would continue to encourage imports and discourage exports."

The Committee shows its careful interest in the international situation, and the concern about the dangers of credit expansion for commercial purposes in the following paragraph:

We shall not attempt now to lay down the precise measures that should be adopted to deal with the situation immediately after the war. These will depend upon a variety of conditions which cannot be foreseen, in particular the general movements of world prices and the currency policy adopted by other countries. But it will be clear that the conditions necessary to the maintenance of an effective gold standard in this country no longer exist, and it is imperative that they should be restored without delay. After the war our gold holdings will no longer be protected by the submarine danger, and it will not be possible indefinitely to continue to support the exchanges with foreign countries by borrowing abroad. Unless the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit is once more brought into play, there will be very grave danger of a credit expansion in this country and a foreign drain of gold which might jeopardize the convertibility of our note issue and the international trade position of the country. The uncertainty of the monetary situation will handicap our industry, our position as an international financial centre will suffer and our general commercial status in the eyes of the world will be lowered. We are glad to find that there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.

Stock and Bond Market.

The stock market was strong in the early days of the month, in the first exuberance over the certainty of peace. Later the market reflected upon the situation more soberly, and a reaction occurred, affected in industrials by reports of cancellations of war contracts and commercial orders and in railroads by a report that the Security Owners' Association was taking steps to have the roads promptly returned to the owners. Evidently the market reflects an opinion that such return is undesirable until a public policy relative to the roads is fully developed.

The speculative bond market also slowed down in the latter part of the month, as a result probably of too rapid a pace last month. It is difficult to see why talk of a slow-down in business should effect unfavorably either stocks or bonds of assured returns, as a business reaction would mean idle money, and naturally create a demand for income-bearing securities of a high order.

The best barometer of the November securities market is the large over-subscription of $20,000,000 Liggett & Myers Tobacco Company 6% Notes on a 6¾% basis. This compares with a 7%—7¼% basis on $25,000,000 American Tobacco Company 7% Notes offered in October. Prior to the Fourth Liberty Loan financing of this character had been offered on 7½%—7¾% basis. While some signs of hesitancy were in evidence at the close of the month, nevertheless the real absorptive power of the investment market does not seen to have been tested, for new issues have not been offered in large amounts and the larger blocks of market securities seem to have been generally withdrawn.

The municipal market has absorbed all new offerings with alacrity and prices of the larger city issues have advanced to a 4.20%—4.25% basis. It is anticipated that may municipalities will offer securities when restrictions are lifted, and New York City will probably be among the first as it is sorely in need of dock and port improvements and school buildings.

Liberty Loan issues held firm during the month until the closing week when the Fourth 4¼s sold below 98, and a general decline was registered in the other issues.

Railroad buyers have been offered a somewhat meagre bill of fare. $9,850,000 Kansas City Terminal 6% Five Year Notes were quickly placed on a 6.05% basis, and the Norfolk & Western Railroad has offered to its stockholders $18,000,000 Ten Year 6% Convertible Bonds at par. The investment market has been interested in the maturity of new issues, for the general sentiment is changing from short term notes to the longer term mortgage bonds. A ten year maturity, however, is the maximum test as regards new offerings.

Among the industrials, the American Thread Company is the first to offer longer term mortgage bonds, their issue of $6,000,000 First Mortgage 6% Ten Year Bonds on a 5⅞% basis being quickly over-subscribed.

Following are some of the more important offerings:

$6,000,000	American Thread Company 1st Mtge. 6% Bonds, due December 1, 1928 at 101 and interest, yielding 5⅞%.
3,250,000	Chicago Pneumatic Tool Co. 6% Bonds, due October 1, 1920-23 at prices to yield 7.25%.
1,750,000	Cleveland, Cincinnati, Chicago & St. Louis Ry. Co. 4½% Debentures due January 1, 1931, at 80 and interest, yielding 7%.
400,000	Continental Gas & Electric Corp., Cleveland, 6% Notes due September 1, 1920, at 97 and interest yielding 7¾%.
500,000	Farm Loan 5% Bonds, due May 1, 1938, Optional after May 1, 1923, at 101½ and interest, yielding 4.65% to 1923 and 5% thereafter.
3,000,000	Jacob Dold Packing Company 7% Notes, due November 15, 1919-1923 at prices to yield 7% to 7¼%.
9,850,000	Kansas City Terminal Railway Co. 6% Notes, due November 15, 1923 at 99¾ and interest, yielding 6.05%.
20,000,000	Liggett & Myers Tobacco Company, 6% Notes, due December 1, 1921 at 98 and interest, yielding 6¾%.
550,000	Mahoning & Shenango Ry. & Lt. 6% Bonds, Series "B," due November 1, 1920, at 97¼ and interest, yielding about 7½%.
4,000,000	Mengel Box Company 7% Debentures, due November 1, 1920-1923 at prices to yield 7.25% to 7.40%.
2,500,000	New Orleans & Northeastern R. R. Co. 4½% Bonds, due January 1, 1952, at 86¼ and interest, yielding 5.40%.
375,000	Oklahoma Railway 8% Bond-Secured Notes, due March 1, 1921 at 100 and interest, yielding 8%.
500,000	Parafine Companies, Inc., San Francisco, 7% Notes, due December 1, 1919-24, at 100 and interest, yielding 7%.
1,500,000	Pennsylvania Company 4½% Loan, due June 15, 1921 at 97¾ and interest, yielding about 5¾%.
1,841,000	Puget Sound Traction, Lt. & Pr. 7% Bonds, due June 1, 1921 at 98½ and interest, yielding 7.65%.

511,000 Sinclair Oil & Refining Corp. 5% Equip. Trust Notes, due 1919-21 at prices to yield 6¼%.
750,000 Standard Gas & Electric Co. 7% Notes, due September 1, 1921 at 97½ and interest, yielding 8%.
100,000 Western Heater Dispatch Company Equipment 6% Bonds, due 1920-1924 at prices to yield 7.25%.

New municipal offerings include:

$1,019,000 Akron, Ohio, 5% Water Works Bonds on a 4.45% basis.
1,315,000 Akron, Ohio, 5% Water Works Bonds on a 4.50% basis.
112,000 Blaine County, Montana, 5½% Bonds on a 5% basis.
55,000 Carbon County, Montana, 5½% Bonds on a 5% basis.
1,000,000 City and County of Denver 4½% Water Bonds on a 4.57% basis.
500,000 Cleveland, Ohio, 4½% Bonds on a 4.40% basis.
490,000 Des Moines, Iowa, 4½% Bonds on a 4.50% basis.
988,700 Detroit, Michigan, 4½% Sewer Bonds on a 4.25% basis.
50,000 Hamilton County, Ohio, 5% bonds on a 4.50% basis.
95,000 Kentawka Drainage District, Mississippi, 6% Bonds on a 5¾% basis.
1,425,000 Los Angeles County, Cal., Flood Control Dist. 5% Bonds on a 4.80% basis.
100,000 Miller County Levee Dist. No. 2, Arkansas, 6% Bonds on a 5.50% basis.
100,000 Mitchell, South Dakota, 5% Bonds on a 4.70% basis.
2,000,000 New York City Corporate Stock on a 4.325% basis.
500,000 New York State Canal 4½% Bonds on a 4.10% basis.
100,000 Ossining, New York, 5% Water Bonds on a 4.50% basis.
272,000 Outagamie County, Wisconsin, 5% Highway Bonds on a 4.70% basis.
71,000 Pacific County, Washington, 4½% Bonds on a 4.70% basis.
7,000,000 Philadelphia, Pa., 4½% Bonds on a 4.25% basis.
500,000 Poinsett County, Ark., Drainage Dist. No. 7, 5% Bonds on a 5.75% basis.
199,000 Quincy, Mass., 4½% Bonds on a 4.15% basis.
220,000 Rochester, New York, Notes on a 4.50% basis.
2,268,000 Rochester, New York, 4½% Bonds on a 4.20% basis.
215,000 Salt Lake City, Utah, 5% Bonds on a 4.45% basis.
25,000 State of South Carolina 5% Bonds on a 5% basis.
235,000 St. Paul, Minn., 4½% Bonds on a 4.20% basis.
200,000 St. Paul, Minn., 4½% and 5% Sewer Bonds on a 4.60% basis.
200,000 Van Zandt Co. Road Dist. No. 4, Texas, 5½% Bonds on a 5.30% basis.
63,000 Westchester County, New York, 4% Bonds on a 4.30% basis.
65,000 West Hoboken, New Jersey, 5% Bonds on a 4.55% basis.
110,000 Woonsocket, Rhode Island, 5% Bonds on a 4.50% basis.

The average price of 40 standard issues, as reported by the Wall Street Journal on November 29 was 87.68 compared with 84.94 on October 29, and 84.78 on November 29, 1917.

Postal Banks and Parcels Post.

Chicago, Ill., November 19, 1918.

Mr. President of The National City Bank of New York,
(Name unknown to me.) *New York, N. Y.*

DEAR SIR:

By chance a copy of your BULLETIN (issue of October last) fell into my hands, and—though I am only a poor laboring man and have nothing to invest—it was so interesting that I shall be grateful if you will send it to me regularly.

You have statistics of how labormen's and farmers' subscriptions for Liberty Bonds—the four issues—compare in bulk to those of bankers and corporations. I will call it a special favor if, at your convenience, you will forward me the facts.

Who, or what, were for years and years opposed to and blocked the establishment of Postal Saving-banks in the U. S.? If it was not the great banking and financial corporations, as I have been told, I would be pleased to know the truth.

I am under the impression that the once great, powerful and influential express companies for quite a number of years blocked the Parcel-post from being established in the United States—is that true or not? I have no absolute facts, and shall be very thankful for enlightenment.

Don't be alarmed, Sir! I am not an anarchist, socialist or crank, but a plain, honest, intelligent 100 per cent. American, and feel rejoiced at our complete victory and the ending of the war. I belong to no union, club or society—do my own thinking and writing. My information on the above points comes from newspapers—the great dailies—and I have a good memory; it was years ago I read it.

Hoping you will give me what information you may have to my unimportant questions, I am,

Yours very respectfully,

The statistics as to bond purchases by wage earners and farmers are not available. It would be interesting to have more information as to the small subscriptions. It is certain that they aggregated a very important part of the total.

It is not correct to say that the great banking and financial corporations actively opposed and blocked the passage of the postal savings act. That class of corporations, excepting savings banks, do not usually receive savings deposits and did not interest themselves in the agitation. A good many banks in the smaller towns, however, actively opposed the establishment of the postal system.

It should be recognized that there were economic reasons of weight against the establishment of postal banks in this country. In other countries the postal savings deposits are invested regularly in government bonds, but in this country for years before the present war the bonded debt was small, and most of it paid only 2 per cent. interest. It, therefore, was impracticable to invest the deposits in that way. The plan was also objected to on the ground that it was a better policy for each community to keep its savings in local banks, which would loan them out in the same community, thus contributing to the up-building of the community, than to have them withdrawn to Washington for investment in securities that might be selected there. This is a large country, much of it new, with many communities short of capital and needing all their own at home. Furthermore, the interest paid by local banks would be higher and thus afford a greater incentive to saving. Here in New York savings banks are paying 4 per cent. while the postal bank pays 2½.

A compromise was finally effected by which the deposits of each postal bank, instead of being withdrawn to Washington, are re-deposited in local banks, on government account, and are loaned in the same community. The interest received by the depositor is less than he would get if he deposited the money with the bank direct.

The chief argument for the postal savings bank, and a strong one, is that it furnishes absolute security and thus encourages many people to save and deposit their money who otherwise would not use a bank at all.

Those who opposed the postal bank urged that the attention of the government should be directed to making all banks safe and to cultivating popular confidence in them. Since then the entire banking system has been greatly strengthened by the passage of the Federal reserve act.

As the country grows older there is not the same objection to the withdrawal of funds from localities. Moreover, the war has made it necessary for the Government to call on all sections for funds, even at the cost of retarding local development. Indeed, it has been necessary to generally suspend develop-

ment work, not only because the Government needed the money, but because it needed men and materials. Hereafter there will be a great public debt in which the postal savings may be invested, or in which the public afraid of banks can invest direct.

As to the parcels-post, the opposition of the express companies was not the important factor in delaying its establishment. The important opposition came from the small towns all over the country, whose business men were afraid the parcels-post would build up the mail order business. They urged that the country town was an important cultural factor in rural life, and that the parcels-post would reduce its importance. It was a dubious argument, and the country towns were more frightened than hurt, but they were responsible for delaying the legislation for a number of years. The rural congressman was far more amenable to the arguments of the country store-keepers and country bankers of his own district than to any influence the express companies could wield.

It is undeniable that all classes of people, bankers and store-keepers not excepted, are sensitive to their own interests, more or less selfish, and prone to confuse their own interests with what they conceive to be the interests of the public. We have to put up with that and recognize that it is a common failing. But every man should train himself to judge of every question upon its merits as they appear, without prejudice. Bankers are not always agreed, and they are sometimes right and sometimes wrong. It is good policy to hear all sides fairly and then decide for yourself.

Steel Capacity.

We are indebted to the American Iron and Steel Institute for the following statement of the increase in capacity for the production of pig iron and steel in the United States since the beginning of the year 1914:

	Gross Tons Dec. 31, 1913	Gross Tons Dec. 31, 1917
Annual Capacity of completed Blast Furnaces of Pig Iron	44,395,000	48,100,000
Annual Capacity of all kinds of Steel Ingots and Castings	39,689,000	52,433,000

During the first six months of 1918, at least three modern Blast furnaces, which were in course of construction on Dec. 31, 1917, were completed—one by the Lackawanna Steel Company, one by the Illinois Steel Company, and one by the Iroquois Iron Company. These three furnaces have an estimated annual capacity of 559,100 gross tons. On June 30th, 1918, twelve new Blast Furnaces were being built.

The above figures for Steel Ingots and Castings for 1917, are provisional, but the final figures will not differ materially from the provisional figures given above.

Since the first of January, 1918, the companies named below have completed and started Open Hearth Steel Plants.

	Estimated Annual Capacity. Tons
Canton Sheet Steel Co., Canton, Ohio	75,000
Erie Forge and Steel Co., Erie, Pa.	54,600
Mark Mfg. Co., Indiana Harbor, Ind.	225,000
Tacony Ordnance Corp., Tacony, Pa.	50,000
Trumbull Steel Co., Warren, Ohio	264,000
Worth Steel Co., Claymont, Del.	200,000

In addition a number of small plants have installed Open Hearth Furnaces, Electric Furnaces, etc., and some additions have been made to existing plants.

Canada.

The Second Victory Loan in Canada, closed last month, was a fine success, subscriptions amounting to $676,027,217. This is the fifth Dominion loan placed at home.

The subscriptions to each and the total are given below:

First war loan, November 22, 1915	$103,729,500
Second war loan, September 12, 1916	201,444,800
Third war loan, March 12, 1917	260,768,000
Fourth war loan, November 12, 1917	419,289,000
Fifth war loan, October 28, 1918	676,027,217
Grand total of Canada's war loans	$1,661,258,517

The production of wheat in Canada last season was 210,315,000 bushels, against 231,730,200 in 1917, but the total of all grains was 758,261,700 bushels, against 698,394,700 in 1917.

Canadian imports for the twelve months ending with last September were $897,128,837 and exports, $1,401,371,772.

The *Financial Times* of Montreal states that it is informed on authority which cannot be at present disclosed, that the chief claim which will be presented on behalf of Canada by Sir Robert Borden at the Peace Conference will be for the expenditure in Canada of $1,000,000,000 of the indemnity to be exacted from the enemy in reparation for his devastation in France and Belgium.

The exchange situation with the United States is slightly less unfavorable to Canada, although the premium on New York drafts is still about 1½ per cent.

General Business Conditions.

The developments in industry during the last month on the whole need not be deemed discouraging, although Government contracts have been cancelled right and left, and there have been numerous efforts to cancel commercial orders. The Government cancellations were inevitable whenever the war ended, and the others are the result of timidity. Strenuous efforts are being made to hold the latter in check. In wholesale circles conditions are quiet, with a conservative trend. It is too early for foreign business to appear on an important scale.

The Government has decided not to offer its surplus wool stocks at auction, which is a relief to the trade. It is understood that offerings in moderate amount will be made from time to time, the first to be at prices somewhat below the present market. This wool came to the Government at high prices, and it is interested in

sustaining the price until present supplies are worked off. The next crop will doubtless have to take its chances on the market.

The woolen trade has a new source of anxiety, however, in the enormous stocks of clothing which the Government has bought for the Army, which will never be needed for that purpose. Will they be thrown on the home market, or will the Government assume the task of working them off abroad?

Cotton has been weak, on the small exports, the total since August 1st, being 1,213,826 bales as compared with 2,476,857 for the corresponding time last year. November closed with the New York price around 29 cents, as compared with 31 last year. On the theory that consumption has been very low for several years and that all markets will now be opened up, there ought to be a large consumption this coming year, but the courage of buyers has not been sufficient to sustain the market in the face of prospective cancellations of Government business and the slow trade in cotton goods. The Fall River mill operatives, who had asked another wage increase of 15 per cent., after talking the situation over with the employers concluded to defer action and continue work at the present scale.

The acreage sowed to winter wheat is considerably above last year's and the crop goes into the winter in good condition. As wheat is the only grain with a guaranteed price doubtless the acreage sown next spring will be large. The Government guaranty will cover all wheat harvested in the crop year ending June 30, 1920, but presumably this will not let in much which is harvested after the calendar year, 1919. If Mr. Hoover's information is correct the world will need all that can be produced next year. It is possible to sow winter wheat in some of the Southern states in December, and there would seem to be every reason for making the acreage as large as possible. It is the one crop upon which the farmer runs no risk of a price decline.

STATEMENT OF RESOURCES AND LIABILITIES OF EACH OF THE TWELVE FEDERAL RESERVE BANKS AT THE CLOSE OF BUSINESS NOVEMBER 29, 1918.

(In Thousands of Dollars)

RESOURCES	Boston	N. Y.	Phila.	Clev'd	Rich'd	Atlanta	Chicago	St. Louis	M'npl's	Kas. City	Dallas	S. Fr'sco	Total
Gold in vaults and in transit	3.875	277.665	104	28.196	2.336	7,573	24.168	2,096	8,416	202	5,669	10,638	370,938
Gold Settlement Fund	21,465	17.142	39,529	34,723	21,754	8,546	126,902	26,493	23,673	26,971	6,514	41,580	395,292
Gold with foreign agencies	408	2.011	408	525	204	175	816	233	233	291	204	321	5.829
Total gold held by banks	25,748	296,818	40,041	63,444	24,294	16,294	151,886	28,822	32,322	27,464	12,387	52,539	772,058
Gold with Federal Reserve Agents	70.785	282.220	78.605	132,321	60.833	44,399	244.167	53,083	57.279	52.799	22.500	117,550	1,216,541
Gold Redemption Fund	6.817	24.992	7.700	635	5.798	5 242	12.067	3,322	3,926	3,704	2.153	257	76.613
Total gold reserves	103,350	604,030	126,346	196,400	90,529	65,935	408,120	85,227	93,527	83,967	37,040	170,346	2,065,213
Legal tender notes, Silver, etc	3.151	44 624	574	638	647	228	1.515	1.975	83	153	1.297	273	55,158
Total Reserves	106,501	648,654	126,920	197,038	91,572	66,163	409,635	87,202	93,610	84,120	38,337	170,619	2,120.371
Bills disctd: Sec. by Govt. war obligations	131.096	626.905	165.505	107.287	65 683	41.205	123.047	47,819	21,180	22,390	16.646	43.748	1,412,511
All other	12 616	84.263	16.486	17.313	18,956	39.135	60,987	32,233	11,827	47,765	32,327	28,776	402.684
Bills bought in open mark't	25.229	166.732	15.875	50.673	2.724	12.927	37,357	3.756	12,436	9.304	4,025	34.303	375.341
Total bills on hand	168,941	877,900	197,866	175,273	87,363	93,267	221,391	83,808	45,443	79,459	52,998	106,827	b2,190,536
U. S. Governm't long-term securities	1,403	1,398	1,375	1,088	1,234	519	4,509	1,153	125	8,867	4,000	3,461	29,132
U. S. Governm't short-term securities	5,416	35,423	6,299	8,731	3,284	4,022	12,612	5,568	2,997	2,909	2,400	3,003	92,664
All other earning assets						27							27
Total Earning Assets	175,760	914,721	205,540	185,092	91.881	97,835	238,512	90,529	48,565	91,235	59,398	113,291	2,312,359
Uncollected Items (deduct from gross deposits)	64,049	143,304	81,055	69.356	57,018	34,386	78,889	66,619	19,139	55,918	20,098	46,497	736,328
5% redemption fund against F. R. bank notes	220	1.055	300	383	256	207	719	253	188	557	227	256	4,621
All other resources	1,137	8.238	3.590	797	1,157	810	1.366	550	197	1.043	803	1,621	21.309
TOTAL RESOURCES	347 667	1,715.972	417,405	452,666	241.884	199,401	729,121	245,153	161,699	232,873	118,863	332,284	5,194,988
LIABILITIES													
Capital Paid in	6,598	20,726	7,486	8,886	4,044	3,175	11,108	3,785	2,928	3,655	3,141	4,540	80,072
Surplus	75	649			116	40	216		38				1,134
Government Deposits	42,802	26,616	28,087	28,256	4,519	7,325	14,106	19,583	9,187	11,754	3,989	10,933	207,157
Due to members—reserve account	93,043	636.346	78.428	130 690	53.665	41.919	217.166	53.026	46,160	55,460	31,155	78.835	1,488,893
Collection Items	46,216	161,993	71,411	53,774	40,754	24,204	60,554	50,401	11,758	37,618	16,283	27,701	602,667
Other deposits incld'g For. Government credits		101.637		68		28	1.554	307	15	2	8	2,275	105,894
Total Gross Deposits	182,061	926,592	177,629	185,788	98,938	73,476	293,380	123,317	67,120	104,834	51,435	119,744	2,404,611
F. R. Notes in actual circulation	150,906	720,294	223,730	247,535	134,467	117,151	403,634	111,403	87,597	111.958	58,792	201,209	a 2,568,676
F. R. Bank Notes in circulation, net liability	4.256	25.627	5 278	6.662	2.067	3,889	14.131	4,664	2,420	9,397	3,824	3,788	86.003
All other Liabilities	3,771	22.084	2,985	3.795	2.252	1,670	6 652	1.984	1,596	3.029	1,671	3,003	54.492
TOTAL LIABILITIES	347.667	1.715 972	417.405	452.666	241,884	199.401	729,121	245,153	161,699	232,873	118.863	332,284	5,194,988

(a) Total Reserve notes in circulation. 2.568.676.

(b) Bills discounted and bought; U. S. Government short term securities; municipal warrants, etc.: 1—15 days 1,314,534; 16—30 days 227,098; 31 60 days 479 890; 61 90 days 166.276; over 90 days 95.429. Total 2 283 227.

Ratio of gold reserves to net deposit and Federal Reserve note liabilities combined 59.8%. Ratio of total reserves to net deposit and Federal Reserve note liabilities combined 63.2%.

DISCOUNT RATES UNCHANGED FROM A MONTH AGO.